

Astra Microwave Products (ASTMIC)

CMP: ₹ 748

Target: ₹ 970 (29%)

Target Period: 12 months

BUY

November 21, 2024

Well placed to capture emerging opportunities...

About the stock: Astra Microwave Products (AMPL) is engaged in design, development and manufacture of sub-systems for Radio Frequency and microwave systems, primarily used in defence, space & meteorology

- Product range includes radars, missile electronics, electronic warfare, satellites, MMIC (Monolithic Microwave Integrated Circuit) and communication systems
- In FY24, ~58% of revenue was from defence, ~32% from exports (including deemed exports) and balance ~10% from space & others

Investment Rationale:

- Strong domain expertise in key defence electronic systems:** With strong design & development and manufacturing capabilities (critical sub-systems/systems for various airborne, naval & ground based platforms), we believe that AMPL is firmly placed to capture a sizable share in defence & space electronics opportunity. The company has moved up in the value chain from manufacturing sub-systems/components to development & manufacturing of various high-end, high-value systems. Company continues to explore new opportunities and strengthen its overall capabilities through in-house development and strategic collaborations with other key players. With critical systems like microwave and radio frequency application-based equipments like Gallium Nitride (GaN) Transmit/Receive Modules (TRMs), NavIC (Navigation with Indian Constellation) chips and other key radars & EW systems etc, we believe that company continues to improve its product mix significantly
- Healthy order-book & robust pipeline gives strong visibility; Increasing share of higher-margin domestic contracts to drive profitability:** With a steady order intake of ₹ 530 crore during H1FY25, company's consolidated order book position stands strong at ₹ 2269 crore (2.3x TTM revenue) and provides healthy revenue visibility. With a strong emphasis on improving product mix and getting orders with higher complexity, company maintains its order intake guidance of ₹ 1200-1300 crore for FY25E. We believe that order pipeline remains strong for AMPL in both domestic and export markets, considering the substantial opportunity in defence & space sectors. Management sees total orders opportunity worth ₹ 24000-25000 crore for the company over FY25-28E, primarily in defence & space electronics. Margins and profitability is expected to improve further led by execution of higher-margin domestic contracts

Rating and Target Price

- We believe AMPL is well placed to witness healthy growth led by strong sector tailwinds. We estimate revenue & PAT to grow at ~20% & ~24% CAGR respectively over FY24-27E
- We recommend BUY on AMPL with target price of ₹ 970 per share (based on 40x FY27E EPS)

Key Financial Summary

| (Rs crore) | FY22 | FY23 | FY24 | 3 Year CAGR (FY21-24) | FY25E | FY26E | FY27E | 3 Year CAGR (FY24-27E) |
|-------------------|-------|------|------|-----------------------|-------|-------|-------|------------------------|
| Revenues | 750 | 816 | 909 | 12.3 | 1,088 | 1,304 | 1,564 | 19.8 |
| EBITDA | 89 | 148 | 192 | 35.4 | 242 | 299 | 367 | 24.2 |
| EBITDA margin (%) | 11.9 | 18.1 | 21.1 | | 22.2 | 22.9 | 23.5 | |
| Net Profit | 38 | 70 | 121 | 61.3 | 140 | 181 | 229 | 23.7 |
| EPS (Rs) | 4.4 | 8.1 | 12.8 | | 14.8 | 19.1 | 24.2 | |
| P/E (x) | 171.1 | 92.8 | 58.7 | | 50.6 | 39.3 | 31.0 | |
| EV/EBITDA (x) | 79.5 | 48.6 | 37.6 | | 30.3 | 24.5 | 20.1 | |
| RoCE (%) | 11.2 | 15.6 | 14.8 | | 15.9 | 17.8 | 19.4 | |
| RoE (%) | 6.5 | 10.9 | 12.5 | | 12.9 | 14.5 | 15.7 | |

Source: Company, ICICI Direct Research



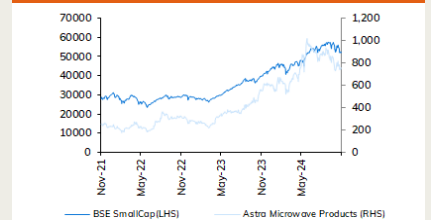
Particulars

| Particular | Amount |
|----------------------------------|------------|
| Market Capitalisation (Rs Crore) | 7,102 |
| FY24 Gross Debt (Rs Crore) | 238 |
| FY24 Cash (Rs Crore) | 131 |
| EV (Rs Crore) | 7,209 |
| 52 Week H/L (Rs) | 1060 / 510 |
| Equity Capital | 19.0 |
| Face Value | 2.0 |

Shareholding pattern

| | Dec-23 | Mar-24 | Jun-24 | Sep-24 |
|----------|--------|--------|--------|--------|
| Promoter | 6.5 | 6.5 | 6.5 | 6.5 |
| FII | 2.9 | 3.2 | 4.7 | 5.7 |
| DII | 14.8 | 13.6 | 13.6 | 15.0 |
| Others | 75.7 | 76.7 | 75.2 | 72.8 |

Price Chart



Key risks

- Dependent on govt contracts
- High working capital requirement
- Availability of key raw materials/components

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Q2FY25 & H1FY25 Result Summary

- Revenue increased by 20.8% YoY (+48% QoQ) to Rs 229.6 crore in Q2FY25, led by strong growth of 72% YoY in domestic defence segment (contributing 80% to revenue)
- EBITDA margin stood at 21.4% (-46 bps YoY, +598 bps QoQ)
- Subsequently, EBITDA increased by 18.2% YoY (+105.1% QoQ) to Rs 49.2 crore
- PAT was down 15.4% YoY on account of higher interest cost and lower other income
- For H1FY25, revenue is up ~19% YoY to Rs. 384.8 crore while EBITDA margin stands at 19% (vs 13.8% in H1FY24)

Earnings call highlights

- Order backlog stands at ₹ 2269 crore as of September 2024 end (vs ₹ 2099 crore as of June 2024 end). Order inflows stood at ₹ 232.05 crore in Q2FY25 driven by EW products (₹ 530 crore in H1FY25)
- Domestic contracts contribute ~90% of order backlog while exports contribute balance ~10%
- Defence segment contribute ~77% of the domestic order backlog while space and meteorological segments contribute ~6% and ~7% of domestic backlog
- Out of the orders secured in this quarter 85% belongs to the domestic segment in which 15% belongs to development contracts and balance is from the nature of DPSUs and IMD
- The Order Book breakup for Q2FY25 includes C- band doppler from IMD, a development order contract from DRDO, a production contract from BEL for NAYAN sub-systems. These orders constitute 98% form domestic market (BTS) while the remaining 2% are from exports a combination of BTS and BTP
- The order inflow for H2FY25 is expected to be around ₹ 500-600 crores comprising orders of Radars between ₹ 350-370 crores, EW between ₹ 50-60 crores, Telemetry and Missiles ₹ 100-120 crores, Meteorology ₹ 50-100 crores and Others ₹ 30-40 crores
- Company maintains its revenue guidance for FY25 at ₹ 1000 crore with order inflows worth ₹ 1200-1300 crore and topline in the range of ₹ 1000-1100 crore by being hopeful in booking orders of another ₹ 550-600 crores in H2FY25
- Management justified the dip in revenue for ARC Q2FY25 performance stating the geopolitical conditions as a reason for a PBT of ₹ 8 crores but are positive in achieving a revenue of ₹ 275 crores with a PBT margin range of about 8%. The current orderbook for ARC stands at about ₹ 282 crores and expects an order inflow of further ₹ 200 crores for H2FY25
- The company has signed an MoU with Premier explosives seeking to explore combination of their electronics with explosives such as in guided missiles. For one of the products they mentioned that 95% of the content is ready and once integrated the prototype would be ready in the next 5-6 months and the product hence developed would not just be for domestic defence consumption
- The company has also entered into an equal participation JV with Manjeera Digital Systems for NavIC chips. The management is positive about the growth in GPS domain as ISRO is planning to launch seven new navigation satellites
- The company is also developing global products for Counter-Drone Systems (CDS) and have come up with three different versions for the same namely Short-range (0.5 km), Medium-range (variable 2 km), Omni directional (5 km). They have completed an IP acquisition in this area for which have positioned them as a global production partner in this IP.
- For CDS the company is already producing for soft kill options and have almost 12 active cases in which almost 6 are in RFI response stage and few in RFP stage, out of these, one has been submitted for proposal. The

demo would be conducted in the month of December this year. As far as the hard kill options are considered the company is collaborating with other OEM's but are confining themselves to supply only radar for these programmes

- Manpack SDR would be going for its final demo in the month of December this year and the trials for which would be completed in January, the commercial bid for the same is expected to be submitted by the March of next year.
- The Photonic radar is undergoing its final testing and is targeting to deliver the system to DRDO by year end.
- The company is expecting orders for Uttam AESA by March in next year as they received an enquiry for the same
- As BEL is L1 for the Ashwini LLTR and the commercial bids are open, the management is targeting for involvement at the sub-systems level.
- The company is also expecting orders in the next couple of months from BEL for supplying components of Atulya radar

Exhibit 1: Q2FY25 result snapshot (₹ crore)

| | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) | H1FY25 | H1FY24 | YoY (%) |
|---------------------|--------|--------|---------|--------|---------|--------|--------|---------|
| Operating Income | 229.6 | 190.1 | 20.8 | 155.2 | 48.0 | 384.8 | 323.8 | 18.8 |
| Other income | 2.2 | 3.4 | | 2.1 | 3.3 | 4.3 | 5.4 | |
| Total Revenue | 231.8 | 193.5 | | 157.3 | 47.4 | 389.1 | 329.2 | |
| Raw materials costs | 135.8 | 109.1 | | 87.2 | 55.6 | 223.0 | 205.1 | |
| Employees Expenses | 31.0 | 25.5 | | 29.6 | 4.9 | 60.6 | 46.9 | |
| Other Expenses | 13.6 | 13.9 | | 14.4 | -5.3 | 28.0 | 27.1 | |
| Total Expenditure | 180.4 | 148.5 | 21.5 | 131.2 | 37.5 | 311.5 | 279.1 | 11.6 |
| EBITDA | 49.2 | 41.7 | 18.2 | 24.0 | 105.1 | 73.3 | 44.7 | 0.6 |
| EBITDA margins (%) | 21.45 | 21.91 | -46 bps | 15.5 | 598 bps | 19.0 | 13.8 | 523 bps |
| Interest | 12.6 | 6.2 | | 10.4 | | 23.0 | 13.7 | |
| Depreciation | 6.2 | 6.3 | | 8.2 | -24.4 | 14.4 | 11.9 | |
| Tax | 8.3 | 8.4 | | 2.1 | 287.3 | 10.5 | 7.0 | |
| PAT | 25.4 | 30.0 | -15.4 | 7.2 | 252.5 | 32.6 | 23.3 | 0.4 |

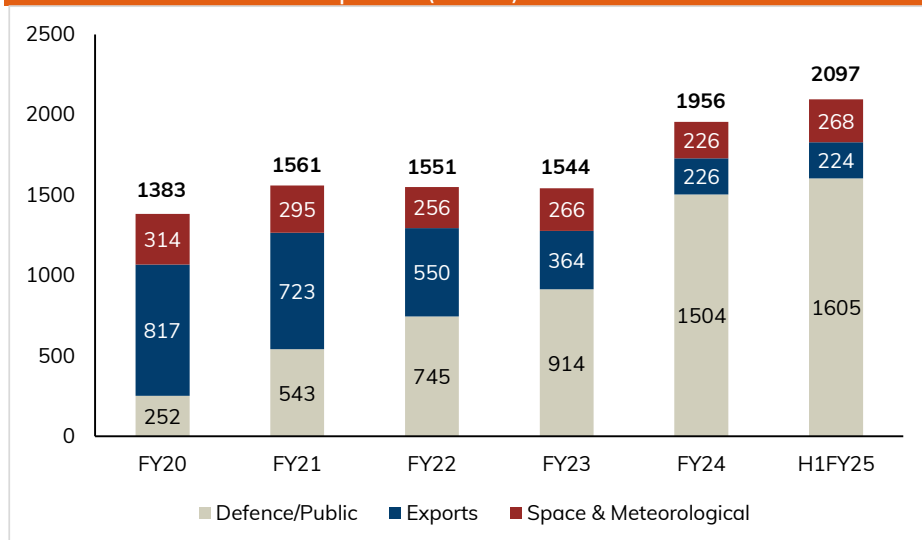
Source: Company, ICICI Direct Research

Exhibit 2: Revenue Break-up trend (₹ crore)

| Revenue Break-up in % | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 |
|----------------------------------|--------|--------|--------|--------|--------|
| Defence | 56.1% | 72.2% | 58.0% | 65.2% | 80.1% |
| Space | 3.1% | 6.1% | 14.0% | 11.5% | 4.9% |
| Exports including Deemed Exports | 38.8% | 20.3% | 24.2% | 21.0% | 11.7% |
| Meteorological | 1.2% | 0.7% | 3.5% | 1.4% | 2.5% |
| Others | 0.7% | 0.7% | 0.3% | 0.9% | 0.8% |

Source: Company, ICICI Direct Research

Exhibit 3: Order book break-up trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

| Exhibit 4: Profit and loss statement | | | | |
|--------------------------------------|---------|---------|---------|---------|
| | ₹ crore | | | |
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Revenue | 908.8 | 1,087.9 | 1,303.8 | 1,563.5 |
| % Growth | 11.4 | 19.7 | 19.8 | 19.9 |
| Other income | 11.7 | 10.0 | 11.2 | 12.5 |
| Total Revenue | 908.8 | 1,087.9 | 1,303.8 | 1,563.5 |
| % Growth | 11.4 | 19.7 | 19.8 | 19.9 |
| Total Raw Material Costs | 545.9 | 652.8 | 782.3 | 938.1 |
| Employee Expenses | 113.7 | 133.0 | 157.0 | 185.2 |
| other expenses | 57.6 | 60.5 | 65.4 | 73.2 |
| Total Operating Expenditu | 717.2 | 846.3 | 1,004.6 | 1,196.5 |
| Operating Profit (EBITDA) | 191.6 | 241.7 | 299.2 | 367.0 |
| % Growth | 29.8 | 26.1 | 23.8 | 22.7 |
| Interest | 31.3 | 49.0 | 50.0 | 50.0 |
| PBDT | 172.0 | 202.7 | 260.4 | 329.5 |
| Depreciation | 25.0 | 29.3 | 32.9 | 37.2 |
| PBT before Exceptional lte | 147.0 | 173.4 | 227.5 | 292.3 |
| Total Tax | 37.9 | 45.1 | 59.2 | 76.0 |
| PAT before MI | 109.0 | 128.3 | 168.4 | 216.3 |
| PAT | 121.1 | 140.3 | 180.9 | 229.3 |
| % Growth | 73.4 | 15.9 | 28.9 | 26.8 |
| EPS | 12.8 | 14.8 | 19.1 | 24.2 |

Source: Company, ICICI Direct Research

| Exhibit 5: Cash flow statement | | | | |
|----------------------------------|---------|---------|---------|---------|
| | ₹ crore | | | |
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Profit after Tax | 121.1 | 140.3 | 180.9 | 229.3 |
| Depreciation | 25.0 | 29.3 | 32.9 | 37.2 |
| Interest | 31.3 | 49.0 | 50.0 | 50.0 |
| Cash Flow before WC changes | 177.3 | 218.6 | 263.7 | 316.5 |
| Changes in inventory | (95.5) | (141.2) | (58.6) | (99.5) |
| Changes in debtors | (221.5) | (99.9) | (109.3) | (142.3) |
| Changes in loans & Advances | - | - | - | - |
| Changes in other current assets | (41.3) | (14.1) | (18.3) | (22.1) |
| Net Increase in Current Assets | (364.0) | (255.2) | (186.3) | (263.9) |
| Changes in creditors | 38.0 | 20.5 | 17.1 | 24.2 |
| Changes in provisions | (0.1) | 1.1 | 0.9 | 1.2 |
| Net Inc in Current Liabilities | 57.3 | 41.7 | 42.2 | 54.6 |
| Net CF from Operating activities | (129.3) | 5.1 | 119.6 | 107.2 |
| Changes in deferred tax assets | (2.0) | 0.1 | - | - |
| (Purchase)/Sale of Fixed Assets | (39.3) | (60.0) | (60.0) | (60.0) |
| Net CF from Investing activities | (74.0) | (58.7) | (62.2) | (62.6) |
| Dividend and Dividend Tax | (19.0) | (19.0) | (19.0) | (19.0) |
| Net CF from Financing Activities | 223.3 | 4.0 | (69.0) | (69.0) |
| Net Cash flow | 20.0 | (49.6) | (11.5) | (24.4) |
| Opening Cash/Cash Equivalent | 110.9 | 130.9 | 81.3 | 69.7 |
| Closing Cash/ Cash Equivalent | 130.9 | 81.3 | 69.7 | 45.4 |

Source: Company, ICICI Direct Research

| Exhibit 6: Balance sheet | | | | |
|---------------------------|---------|---------|---------|---------|
| | ₹ crore | | | |
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Equity Capital | 19.0 | 19.0 | 19.0 | 19.0 |
| Reserve and Surplus | 947.2 | 1,068.5 | 1,230.4 | 1,440.7 |
| Total Shareholders funds | 966.2 | 1,087.5 | 1,249.4 | 1,459.7 |
| Total Debt | 237.6 | 307.6 | 307.6 | 307.6 |
| Total Liabilities | 1,262.3 | 1,455.3 | 1,617.2 | 1,827.6 |
| Gross Block | 362.0 | 425.0 | 485.0 | 545.0 |
| Acc. Depreciation | 194.6 | 223.9 | 256.7 | 293.9 |
| Net Block | 167.4 | 201.2 | 228.3 | 251.1 |
| Capital WIP | 13.0 | 10.0 | 10.0 | 10.0 |
| Total Fixed Assets | 183.3 | 212.0 | 239.1 | 261.9 |
| Non Current Assets | 32.4 | 32.8 | 35.0 | 37.6 |
| Inventory | 514.6 | 655.7 | 714.4 | 813.9 |
| Debtors | 505.2 | 605.1 | 714.4 | 856.7 |
| Other Current Assets | 78.4 | 92.5 | 110.8 | 132.9 |
| Cash | 130.9 | 81.3 | 69.7 | 45.4 |
| Total Current Assets | 1,234.6 | 1,440.2 | 1,615.0 | 1,854.5 |
| Current Liabilities | 83.8 | 104.3 | 121.4 | 145.6 |
| Provisions | 10.2 | 90.0 | 91.0 | 92.0 |
| Total Current Liabilities | 211.8 | 253.5 | 295.7 | 350.3 |
| Net Current Assets | 1,022.8 | 1,186.7 | 1,319.3 | 1,504.2 |
| Total Assets | 1,262.3 | 1,455.3 | 1,617.2 | 1,827.5 |

Source: Company, ICICI Direct Research

| Exhibit 7: Key ratios | | | | |
|--------------------------|-------|-------|-------|-------|
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| EPS | 12.8 | 14.8 | 19.1 | 24.2 |
| Cash per Share | 13.8 | 8.6 | 7.3 | 4.8 |
| BV | 101.8 | 114.5 | 131.6 | 153.7 |
| EBITDA Margin | 21.1 | 22.2 | 22.9 | 23.5 |
| PAT Margin | 13.3 | 12.9 | 13.9 | 14.7 |
| RoE | 12.5 | 12.9 | 14.5 | 15.7 |
| RoCE | 14.8 | 15.9 | 17.8 | 19.4 |
| RoIC | 15.5 | 16.2 | 17.9 | 19.2 |
| EV / EBITDA | 37.6 | 30.3 | 24.5 | 20.1 |
| P/E | 58.7 | 50.6 | 39.3 | 31.0 |
| EV / Net Sales | 7.9 | 6.7 | 5.6 | 4.7 |
| Sales / Equity | 0.9 | 1.0 | 1.0 | 1.1 |
| Market Cap / Sales | 7.8 | 6.5 | 5.4 | 4.5 |
| Price to Book Value | 7.4 | 6.5 | 5.7 | 4.9 |
| Asset turnover | 0.8 | 0.8 | 0.8 | 0.9 |
| Debtors Turnover Ratio | 2.3 | 2.0 | 2.0 | 2.0 |
| Creditors Turnover Ratio | 14.0 | 11.6 | 11.5 | 11.7 |
| Debt / Equity | 0.2 | 0.3 | 0.2 | 0.2 |
| Current Ratio | 10.0 | 10.3 | 10.3 | 10.3 |
| Quick Ratio | 5.3 | 5.3 | 5.5 | 5.7 |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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